

**CITY OF LEXINGTON, TENNESSEE  
LEXINGTON WATER SYSTEM**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2024**

CITY OF LEXINGTON, TENNESSEE

LEXINGTON WATER SYSTEM

INDEPENDENT AUDITOR'S REPORT, FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION

JUNE 30, 2024

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**CITY OF LEXINGTON, TENNESSEE**

**LEXINGTON WATER SYSTEM**

**ROSTER OF PUBLICLY ELECTED OFFICIALS AND MANAGEMENT OFFICIALS**

**JUNE 30, 2024**

**PUBLICLY ELECTED OFFICIALS**

Jeff Griggs	Mayor
Roger Loftin	Alderman
Tim Rhodes	Alderman
Sandra Wood	Alderman
Fred Ellis	Alderman
Jimmy White	Alderman
Gordon Wildridge	Alderman
Gabe Williams	Alderman

**MANAGEMENT OFFICIALS**

Justin Roach	General Manager
Cody Wood	CMFO



## **Independent Auditor's Report**

Lexington Water System Utility Board  
Lexington, Tennessee

### **Report on the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of the business-type activities of the Lexington Water System (the System) a department of the City of Lexington, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lexington Water System as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the

aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Emphasis of Matter**

As discussed in Note I., the financial statements present only the Lexington Water System and are not intended to present fairly the financial position of the City of Lexington, Tennessee, as of June 30, 2024, the changes in its financial position or, where applicable, its cash flows for the year ended June 30, 2024, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 and other required supplementary information on pages 34 through 38 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental information on pages 39 through 42 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

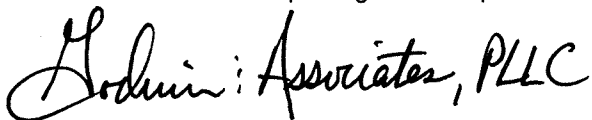
### ***Other Information***

Management is responsible for the other information in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2024, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



December 23, 2024

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2024**

Our discussion and analysis of the Lexington Water System (the System) of the City of Lexington, Tennessee, will offer readers of the System's financial statements a narrative overview and review of the financial activities of the System for the fiscal year ended June 30, 2024. Readers are encouraged to consider the information presented here in conjunction with the System's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows (on pages 8 through 11) provide information about the System's finances.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the System's financial statements. The notes to the financial statements can be found on pages 12 - 33.

**Other Information** – In addition to the financial statements and accompanying notes, this report also presents required supplementary information and supplemental information concerning the System. This information can be found on pages 34 - 42 of this report.

**Comparative Data**

**Statement of Net Position**

	<u>June 30, 2023</u>	<u>June 30, 2024</u>
Current and other assets	\$ 4,972,046	\$ 4,237,781
Capital assets	30,874,921	32,831,679
Total assets	<u>35,846,967</u>	<u>37,069,460</u>
Total deferred outflows of resources	<u>516,738</u>	<u>393,560</u>
Long-term liabilities outstanding	15,837,263	15,325,627
Other liabilities	2,375,598	2,818,303
Total liabilities	<u>18,212,861</u>	<u>18,143,930</u>
Total deferred inflows of resources	<u>1,070,431</u>	<u>857,409</u>
Net position		
Net investment in capital assets	15,680,991	18,252,639
Restricted	2,870,787	1,391,716
Unrestricted	(1,471,365)	(1,182,674)
Total net position	<u>\$ 17,080,413</u>	<u>\$ 18,461,681</u>

The changes in the System's net position are described below:

	<u>June 30, 2023</u>	<u>June 30, 2024</u>
<b>Revenues</b>		
Operating revenues		
Charges for services	\$ 7,799,761	\$ 8,873,760
Miscellaneous	1,619	1,022
Total revenues	<u>7,801,380</u>	<u>8,874,782</u>
<b>Expenses</b>		
Water purchases	158,921	280,642
Personnel expenses	2,152,899	2,262,062
Operating expenses and repairs	3,680,900	3,766,012
Depreciation and amortization	1,407,345	1,421,198
Total expenses	<u>7,400,065</u>	<u>7,729,914</u>
<b>Operating income (loss)</b>	401,315	1,144,868
<b>Nonoperating (expenses)</b>	<u>(188,120)</u>	<u>(163,453)</u>
<b>Net Income before contributions and transfers</b>	213,195	981,415
Capital contributions	122,131	523,732
Operating transfers out	<u>(165,382)</u>	<u>(123,879)</u>
Total contributions and transfers	<u>(43,251)</u>	<u>399,853</u>
<b>Net increase (decrease in net position)</b>	169,944	1,381,268
<b>Total net position at beginning of year</b>	<u>16,910,469</u>	<u>17,080,413</u>
<b>Total net position at end of year</b>	<u>\$ 17,080,413</u>	<u>\$ 18,461,681</u>

- The System had an increase of \$1,381,268 as compared to the prior year increase of \$169,944. This is mainly due to an increase in capital contributions from grant revenues in the current year and increased operating revenues from fee increases.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of June 2024, the System had \$32,831,679 invested in a broad range of capital assets, including land, buildings, distribution plant, and equipment. This amount represents a net increase (including additions and deductions) of \$1,956,759 or approximately 6.34% from last year. Additional information on capital assets is in Note II.A.

### **Long-term Liabilities**

At year-end, the System had \$16,564,019 in outstanding long-term liabilities compared to \$16,961,774 last year. See additional disclosures in Note II.B.

## **ECONOMIC FACTORS**

The System expects higher revenues and operating costs in 2024-2025 as compared to 2023-2024.

## **CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional information, contact the System at 54 Monroe Avenue, Lexington, Tennessee.

Justin Roach  
General Manager of Utility

CITY OF LEXINGTON, TENNESSEE

LEXINGTON WATER SYSTEM

STATEMENT OF NET POSITION

JUNE 30, 2024

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	429,735
Due from other funds		1,013,319
Grant receivables		523,732
Lease receivable, current portion		116,953
Accrued interest receivable		3,130
Other receivables		6,625
Prepaid expenses		33,148
Inventories		<u>312,051</u>

**TOTAL CURRENT ASSETS** 2,438,693

**PROPERTY, PLANT AND EQUIPMENT**

Land		453,238
Buildings and improvements		2,967,245
Equipment		2,845,345
Distribution plant		51,344,865
Construction work in progress		<u>3,475,328</u>

**TOTAL PROPERTY, PLANT AND EQUIPMENT** 61,086,021

Less accumulated depreciation (28,254,342)

**NET PROPERTY, PLANT AND EQUIPMENT** 32,831,679

**OTHER ASSETS**

Cash and cash equivalents - restricted for capital projects		667,969
Cash and cash equivalents - restricted for tank/hydrant maintenance		723,747
Lease receivable, long-term portion		407,307
Deposits		<u>65</u>

**TOTAL OTHER ASSETS** 1,799,088

**TOTAL ASSETS** 37,069,460

**DEFERRED OUTFLOWS**

Deferred outflows related to pensions		361,489
Deferred outflows related to OPEB		<u>32,071</u>

**TOTAL DEFERRED OUTFLOWS** 393,560

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE  
LEXINGTON WATER SYSTEM  
STATEMENT OF NET POSITION (CONTINUED)  
JUNE 30, 2024

<b>CURRENT LIABILITIES</b>	
<b>(Payable from Current Assets)</b>	
Accounts payable	919,669
Retainage payable	55,864
Due to other funds	22,505
Customer deposits	247,352
Accrued interest	81,478
Accrued liabilities	253,043
Current portion of long-term debt	<u>1,238,392</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,818,303</u>
<b>LONG-TERM LIABILITIES, net of current portion</b>	
Compensated absences	416,475
Net pension liability	1,176,206
Net OPEB liability	392,298
Bonds and notes payable (net of unamortized premiums)	<u>13,340,648</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>15,325,627</u>
<b>TOTAL LIABILITIES</b>	<u>18,143,930</u>
<b>DEFERRED INFLOWS</b>	
Deferred inflows related to pensions	183,599
Deferred inflows related to OPEB	149,550
Deferred inflows related to lease receivable	<u>524,260</u>
<b>TOTAL DEFERRED INFLOWS</b>	<u>857,409</u>
<b>NET POSITION</b>	
Net investment in capital assets	18,252,639
Restricted for capital projects	667,969
Restricted for tank/hydrant maintenance	723,747
Unrestricted	<u>(1,182,674)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 18,461,681</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2024**

<b>OPERATING REVENUES</b>	
Water sales	\$ 5,938,004
Sewer sales	2,546,437
Grant revenues (passthrough from City of Lexington)	5,446
Uncollectible accounts	(39,221)
Tap fees	111,389
Connection fees	93,716
Dump charges	23,368
Maintenance tank fees	179,807
Installation of customer service lines	4,945
Recovery of bad debts	9,869
Miscellaneous	1,022
<b>TOTAL OPERATING REVENUES</b>	<u>8,874,782</u>
<b>OPERATING EXPENSES</b>	
Water purchases	280,642
Personnel expenses	2,262,062
Employee benefits	921,688
Chemicals and supplies	624,602
Utilities	446,220
Repairs and maintenance	1,047,794
Professional fees	72,111
Service contract	110,100
Office expense	176,739
Operating expense	69,150
Transportation expense	121,646
Insurance	157,857
Memberships and subscriptions	13,885
Miscellaneous	4,220
Depreciation	1,421,198
<b>TOTAL OPERATING EXPENSES</b>	<u>7,729,914</u>
<b>OPERATING INCOME</b>	<u>1,144,868</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	70,343
Lease revenue	120,270
Sale of materials	37,571
Insurance recoveries	6,539
Bond issue costs	(27,900)
Accretion on debt premiums	21,459
Interest expense	(391,735)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<u>(163,453)</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>981,415</u>
Transfers to other funds	(123,879)
Capital contributions	523,732
<b>TOTAL CONTRIBUTIONS AND TRANSFERS</b>	<u>399,853</u>
<b>NET INCREASE(DECREASE) IN NET POSITION</b>	1,381,268
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>17,080,413</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 18,461,681</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE**

**LEXINGTON WATER SYSTEM**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2024**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 8,935,744
Cash received from other funds	(152,282)
Other operating cash receipts	1,022
Cash payments to suppliers for goods and services	(3,444,834)
Cash payments to employees for services	(2,936,190)
Cash payments to other funds	<u>(5,319)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>2,398,141</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Amounts paid to other funds	(123,879)
Sale of materials	<u>37,571</u>
<b>NET CASH USED FOR NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(86,308)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and dispositions of capital assets	(2,732,229)
Principal payments on long-term debt	(1,126,636)
Loan proceeds	533,206
Bond issue costs	(27,900)
Lease Revenue	120,270
Insurance recoveries	6,539
Interest paid on long-term debt	(396,953)
Capital contributions	<u>-</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(3,623,703)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earned	<u>67,213</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>67,213</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,244,657)
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,066,108</u>
<b>NET CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,821,451</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 1,144,868
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	1,421,198
GASB 68 related to pensions costs	83,395
OPEB adjustment	94,743
Changes in Assets and Liabilities:	
(Increase) decrease in Inventories	1,509
(Increase) decrease in other receivables	2,993
(Increase) decrease in due from other funds	(152,282)
(Increase) decrease in prepaid expenses	43,980
Increase (decrease) in accounts payable	(152,907)
Increase (decrease) in retainage payable	(169,703)
Increase (decrease) in due to other funds	(5,319)
Increase (decrease) in customer deposits	58,991
Increase (decrease) in compensated absences	69,422
Increase (decrease) in accrued expenses	<u>(42,747)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 2,398,141</u>
<b>NONCASH TRANSACTIONS</b>	
Capital Contributions per Statement of Revenues, Expenses, and Changes in Net Position	523,732
Less: Current year grants receivable	<u>(523,732)</u>
Capital Contributions per Statement of Cash Flows	<u>-</u>
Acquisition of capital assets per Statement of Revenues, Expenses, and Changes in Net Position	(3,377,957)
Less: Current year capital accounts payable	<u>645,728</u>
Acquisition of capital assets per Statement of Cash Flows	<u>(2,732,229)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

**NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Lexington Water System (the System) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**A. REPORTING ENTITY**

The City of Lexington is a Tennessee municipal corporation with an eight-member City Council comprised of the Mayor and seven aldermen. In evaluating the System as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the System may or may not be financially accountable and, as such, be includable within the System's financial statements. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. Currently, the City has no blended or discretely presented component units. The System is a department of the City of Lexington and is duly reported in the City's audit report.

**B. BASIS OF PRESENTATION**

The financial transactions of the System are recorded in an individual fund. This fund is accounted for by providing a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses.

The following fund type is used by the System:

**Proprietary Fund:**

The focus of proprietary fund measurement is determination of net income, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the System:

- a. **Enterprise Fund** - used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

**Measurement Focus**

The System utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

**Basis of Accounting**

The System's financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION**

**Cash and Cash Equivalents:**

The System has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. The System considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Additional cash disclosures are presented in Note II. A.

**Investments:**

Investments are stated at cost, which approximates market value. Investments consist of certificates of deposits at local banks whose original maturity exceeds three months.

**Other Receivables:**

Other receivable is shown net of allowance for uncollectible accounts of \$6,625.

**Interfund Receivables and Payables:**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as due to and from other funds.

**Inventories:**

Inventories consist of supplies, valued at cost, which approximates market value. Cost is determined using current values. All inventories are maintained on a consumption method of accounting whereby items are purchased for inventory and are charged to the appropriate accounts as the items are consumed.

**Restricted Assets:**

Certain proceeds of the bond issues are classified as restricted assets on the balance sheet because they are maintained in a separate banking account and their use is limited by applicable bond covenants for capital projects.

Proceeds of maintenance fees are classified as restricted assets on the balance sheet because they are maintained in a separate banking accounting and their use is limited by local ordinance for future tank/hydrant maintenance.

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

**Capital Assets:**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The capitalization policy is as listed below:

1.	Real property – Land		
	a. Land – non depreciable	\$1	
	b. Land Improvements	\$10,000	20 years or life of note
2.	Real property		
	a. Buildings	\$10,000	50 years or life of note
	b. Building Improvements	\$10,000	20 years or life of note
3.	Motor Vehicles		
	a. Cars/Light Trucks/Jeeps	\$ 5,000	6 year life
	b. Equipment/Heavy Trucks	\$10,000	10 year life
	c. Buses	\$10,000	15 year life
	d. Vans	\$ 5,000	6 year life
4.	Misc. Equipment		
	a. Police Vehicle Equipment	\$ 5,000	6 year life
	b. Police Personal Equipment	\$ 5,000	10 year life
5.	Office Furniture & Equipment		
	a. Computer Equipment	\$ 2,000	5 year life
	b. Appliances	\$ 2,000	10 year life
	c. Media Equipment	\$ 2,000	5 year life
6.	Personal Property	\$ 2,000	5 year life
7.	Infrastructure		
	a. Roads		
	i. Asphalt	\$75,000/mile	20 year life
	ii. Double Surface Treatment	\$30,000/mile	10 year life
	iii. Gravel	\$12,000/mile	10 year life
	b. Bridges		
	i. Box Culvert	\$175/Sq. Ft.	30 year life
	ii. Span	\$2,800/Sq. Ft.	30 year life

Depreciation on all assets is provided on the straight-line method over the above estimated useful lives.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The System's deferred outflows of resources are related to pension and OPEB requirements under GASB Statement No. 68 and GASB Statement No. 75.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System

# CITY OF LEXINGTON, TENNESSEE

## LEXINGTON WATER SYSTEM

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

had items that qualified for reporting in this category. Accordingly, the items, are reported in the System's Statement of Net Position. These items are from the following sources, pension changes in experience and changes in pension investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### **Compensated Absences:**

The System accrues accumulated unpaid vacation and sick leave when earned by the employee.

#### **Interfund Transactions:**

Quasi-external transactions are accounted for as fund revenues, expenditures or expenses (as appropriate). Reimbursements to a fund for expenditures (expenses) initially made are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditures (expenses) in the reimbursed fund. All interfund transactions except advances, quasi-external transactions and reimbursements are accounted for as transfers.

#### **Net Position Flow Assumption**

Sometimes the System will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position, a flow assumption must be made about the order in which resources are considered applied. It is the System's policy to considered restricted – net position to have been depleted before unrestricted – net position is applied.

Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation of the government itself.
- c. Unrestricted net position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

#### **Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the System is charges to customers for sales and services. The System also recognizes as operating revenue the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the System include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues that are not generated from the daily operations are defined as nonoperating. Interest income and interest expense are considered nonoperating revenues and expenses.

**CITY OF LEXINGTON, TENNESSEE**

**LEXINGTON WATER SYSTEM**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

**NOTE II. DETAIL NOTES**

**A. ASSETS**

**Cash and Investments**

The System maintains checking and collection accounts with local banks. In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the System must have a written collateral agreement approved by the board of directors or loan committee. Collateral is required for demand deposits, certificates of deposits and repurchase agreements at 105% of all amounts not covered by federal deposit insurance. The System has no policy that further limits allowable deposits.

The System's investment policies are governed by State statute. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts. The System has no policy that further limits allowable investments.

*Custodial credit risk-deposits.* In the case of deposits, this is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. As of June 30, 2024, the System's bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

**Capital Assets**

Capital asset activity for the year ended June 30, 2024, was as follows:

	Balance 7/1/2023	Additions/ Adjustments	Retirements/ Adjustments	Balance 6/30/2024
Capital assets not being depreciated				
Land	\$ 404,448	\$ 48,790	\$ -	\$ 453,238
Construction in progress	7,760,294	1,590,549	(5,875,515)	3,475,328
Total capital assets not being depreciated	<u>8,164,742</u>	<u>1,639,339</u>	<u>(5,875,515)</u>	<u>3,928,566</u>
Capital assets being depreciated				
Building	1,716,497	1,250,748	-	2,967,245
Equipment	2,851,799	39,656	(46,110)	2,845,345
Plant	45,021,136	6,323,729	-	51,344,865
Total capital assets being depreciated	<u>49,589,432</u>	<u>7,614,133</u>	<u>(46,110)</u>	<u>57,157,455</u>
Less accumulated depreciation for:				
Building	(525,800)	(38,121)	-	(563,921)
Equipment	(1,983,789)	(204,872)	46,110	(2,142,551)
Plant	(24,369,665)	(1,178,205)	-	(25,547,870)
Total accumulated depreciation	<u>(26,879,254)</u>	<u>(1,421,198)</u>	<u>46,110</u>	<u>(28,254,342)</u>
Total business-type activities capital assets, net	<u>\$ 30,874,920</u>			<u>\$ 32,831,679</u>

Depreciation expense of \$1,421,198 was recorded by the System.

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Lease Receivable and Lease Revenues**

In July 2001, the City signed a lease with AT&T for AT&T to place antennas on water towers owned by the City for 25 years. The payments on the amended lease began in 2001. The rent agreed upon was \$8,255/month with a 3% increase annually plus an increase for antenna improvements. Since there was no stated interest rate, it was determined that to calculate the net present of payments for 2022 – 2026 (when GASB 87 was implemented), the prime rate of 6.75% per JPMorgan Chase on 7/1/2001 would be used was chosen because it was closest to the official date of the beginning of the lease at 7/1/2001.

In September 2012, the City signed a lease with Verizon for Verizon to place antennas on water towers owned by the City for 25 years. The payments on the amended lease began in 2012. The rent agreed upon was \$1,800/month with a 3% increase annually plus an increase for antenna improvements. Since there was no stated interest rate, it was determined that to calculate the net present of payments for 2022 – 2037 (when GASB 87 was implemented), the prime rate of 3.50% per JPMorgan Chase on 7/1/12 would be used was chosen because it was closest to the official date of the beginning of the lease at 9/1/12.

Following is a table of the future cash flows at net present value for both leases with AT&T and Verizon:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 116,953	\$ 30,418	\$ 147,371
2026	113,748	38,044	151,792
2027	29,521	6,768	36,289
2028	29,378	7,999	37,377
2029	29,236	9,262	38,498
2030	29,095	10,558	39,653
2031	28,954	11,889	40,843
2032	28,814	13,254	42,068
2033	28,675	14,655	43,330
2034	28,537	16,094	44,631
2035	28,399	17,570	45,969
2036	28,262	19,087	47,349
2037	4,688	3,441	8,129
Total	<u>\$ 524,260</u>	<u>\$ 199,039</u>	<u>\$ 723,299</u>

In the financial statements of the Water Fund, revenues of \$143,078 (\$120,270 principal and \$22,808 interest) have been recognized from AT&T and Verizon during the year. The entire amount of the balance for the lease receivable at June 30, 2024, is offset by deferred inflows of resources in the Water Fund.

**B. LIABILITIES**

**Long-Term Liabilities**

**a. Description of Individual Bond Issues, Loans Outstanding and Other Liabilities**

**CITY OF LEXINGTON, TENNESSEE**

**LEXINGTON WATER SYSTEM**

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**JUNE 30, 2024**

General Obligation Bonds - The System issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and to refund other general obligation bonds. General obligation bonds are direct obligations and pledge the full faith, credit, and taxing authority of the government. General obligation bonds were issued for original terms of up to 20 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds included in long-term debt as of June 30, 2024, will be retired from the Lexington Water System Fund.

Direct Borrowing and Direct Placements – The System issues other loans to provide funds for the acquisition and construction of major capital facilities. Loans are direct obligations and pledge the full faith, credit, and taxing authority of the government. The loans outstanding were issued for original terms of up to 25 years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All loans included in long-term debt as of June 30, 2024, will be retired from the Lexington Water System Fund.

During the current year, the System received bond proceeds for two new local government loan program bonds. The water loan was approved for \$2,650,000, with \$481,257 proceeds in the current year. The sewer loan was approved for \$2,000,000, with \$51,949 proceeds in the current year. The remaining approval amounts are expected to be drawn down in the next fiscal year.

Summarized below are the System's individual bond and loan issues and other liabilities which are outstanding at year end:

**Business-type Activities**

**Revenue Bonds**

2019 Water Refunding Bond dated September 1, 2019 through March 1, 2034, interest 2.00 % to 3.00%	\$ 3,335,000
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**General Obligation Bonds**

2012 General Obligation Public Improvement Bonds, dated October 18, 2012, due April 1, 2013 through April 1, 2028, interest 1.00% to 2.00%	1,258,545
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2017 General Obligation Public Works Bonds, dated July 20, 2017 due July 15, 2018 through July 15, 2037, interest 1.30% to 3.25%	1,375,000
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2020 Public Works Improvements dated April 30, 2020, due April 30, 2021, through April 1, 2040, interest 2.00% to 3.00%.	6,595,000
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**Direct Borrowing and Direct Placements**

Local Government Loan Program Bond, Series 2015, variable interest	1,219,000
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Local Government Loan Program Bond, Series 2024, dated May 8, 2024 due May 1, 2025, through May 1, 2044, interest 5.379%	481,257
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Local Government Loan Program Bond, Series 2024, variable interest due May 1, 2025, through May 1, 2044, interest 5.379%	51,949
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**Other Liabilities**

Compensated absences	416,475
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Net pension liability	1,176,206
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OPEB obligation	392,298
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Unamortized debt premiums	263,289
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<b>Total Business-type Activities</b>	<b>\$ 16,564,019</b>
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**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

**b. Summary of Principal and Interest Requirements – All Debt**

Fiscal Year	General Obligation Bonds		Revenue and Tax Bonds	
	Principal	Interest	Principal	Interest
2025	\$ 751,392	\$ 209,902	\$ 290,000	\$ 100,050
2026	777,398	194,958	300,000	91,350
2027	803,404	179,344	310,000	82,350
2028	690,601	159,478	320,000	73,050
2029	476,375	141,673	325,000	63,450
2030-2034	2,528,000	534,681	1,790,000	164,550
2035-2039	2,716,375	240,292	-	-
2040	485,000	11,397	-	-
	<u>\$ 9,228,545</u>	<u>\$ 1,671,725</u>	<u>\$ 3,335,000</u>	<u>\$ 574,800</u>
Less:				
Payable within one year	<u>751,392</u>	<u>209,902</u>	<u>290,000</u>	<u>100,050</u>
Due after one year	<u>\$ 8,477,153</u>	<u>\$ 1,461,823</u>	<u>\$ 3,045,000</u>	<u>\$ 474,750</u>

Fiscal Year	Direct Borrowing & Direct Placements	
	Principal	Interest
2025	\$ 197,000	\$ 254,632
2026	171,949	253,010
2027	165,000	157,667
2028	170,000	155,900
2029	174,000	153,993
2030-2034	756,257	469,860
2035-2039	118,000	3,540
	<u>\$ 1,752,206</u>	<u>\$ 1,448,602</u>
Less:		
Payable within one year	<u>197,000</u>	<u>\$ 254,632</u>
Due after one year	<u>\$ 1,555,206</u>	<u>\$ 1,193,970</u>

**c. Changes in Outstanding Debt**

Business-Type Activities	Balance	Additions	Reductions	Balance	Due within
	7/1/2023			6/30/2024	one year
Revenue Bonds	\$3,615,000	\$ -	\$ 280,000	\$3,335,000	\$290,000
General Obligation Bonds	9,973,182	-	744,637	9,228,545	751,392
Direct Borrowings & Direct Placements	1,321,000	533,206	102,000	1,752,206	197,000
Net Pension Liability	1,084,469	91,737	-	1,176,206	-
OPEB Obligation	336,322	55,976	-	392,298	-
Compensated absences	347,053	69,422	-	416,475	-
Unamortized debt premiums	284,748	-	21,459	263,289	-
Total Business-Type Activities	<u>\$16,961,774</u>	<u>\$ 750,341</u>	<u>\$1,148,096</u>	<u>\$16,564,019</u>	<u>\$1,238,392</u>

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

**NOTE III. OTHER NOTES**

**A. INSURANCE**

It is the policy of the System to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, and workers compensation. Settled claims have not exceeded this commercial coverage in any of the past three years. The System also participates in the Tennessee Municipal League Risk Management Pool, a public entity risk pool. The Tennessee Municipal League Risk Management Pool has been self-sustaining through member premiums. Members consist of local jurisdiction municipalities and utility districts in the State. Members are responsible for a pro-rata portion of claims which exceed the Pool's reserves. No additional assessments have ever been made by the Pool to its members as a result of losses experienced.

Beginning April 2015, medical insurance for employees is provided by self-funding claims as they arise. Under this arrangement, the System provides coverage for the deductible up to a maximum of \$5,000 per year for each employee's medical claims. Claims expenditures and liabilities are reported under the self-insurance plan when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Changes in the claims liability for all employees are as follows:

<b>Balance at 7/1/2023</b>	<b>Incurred Claims</b>	<b>Claims Payments</b>	<b>Balance at 6/30/2024</b>
\$ 13,029	\$ 74,111	\$ 64,608	\$ 22,532

**B. INTERFUND RECEIVABLES AND PAYABLES**

The following schedule represents interfund receivables and payables at June 30, 2024:

	<b>Receivable</b>	<b>Payable</b>
Gas System	\$ 924,515	\$ 22,074
General	88,804	431
	<b>\$ 1,013,319</b>	<b>\$ 22,505</b>

The System records transactions arising from Water, Sewer, and Garbage Fund billing of utility services in these accounts and the amount from the General fund is for expenses paid by Water Fund on behalf of the General Fund. These balances are expected to be repaid within one year.

**CITY OF LEXINGTON, TENNESSEE**  
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**C. OPERATING TRANSFERS**

	<b>TRANSFER TO</b>	
<b>TRANSFER FROM:</b>	<b>General Fund</b>	
Lexington Water System	\$	123,879

The transfer from the Lexington Water System to Lexington General Fund of \$123,879 is for in-lieu-of tax payments.

**D. ACCOUNTS PAYABLE**

Accounts payable is composed of 100% payables to vendors.

**E. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

The System has several construction projects in process as of June 30, 2024. Commitments for these projects are described below.

As of June 30, 2024, the System incurred \$58,144 in project design and planning for a wastewater main line extension at Parkers Crossroads for the Parkers Crossroads RV Park and Campground. The City of Parkers Crossroads has agreed to reimburse the System for 75% of the estimated material costs of the project. This project will be reviewed in the future.

The System incurred \$126,420 in project costs to upgrade the Piney Water Booster Pump Station. This will be completed in FY2025.

As of June 30, 2024, the System has incurred \$188,724 in project design, planning, and construction costs for various wastewater pump stations. The lift stations include L.S. #6, 21, and 19. Lift station #6 is still in process and should be completed in 2025. Lift Station #21 has not been bid out yet.

Improvements for the Sewer system on Old Huntingdon Road will be bid out in 2025. As of June 30, 2024, the system had incurred \$18,500 in project design and planning.

The System has incurred \$21,999 in project design and planning costs to replace the Dixon Street/West Lift Station Interceptor Line as of June 30, 2024, and will bid out the job in FY 2025.

As of June 30, 2024, the System has incurred \$1,135,039 in costs for a new elevated storage tank at the Timberlake Industrial Park.

As of June 30, 2024, the System has incurred \$ 70,988.13 in costs for a new Water Tower located in the Southern part of the county (Guy Hart Road -Reagan).

The system plans to install new water meters throughout the entire distribution system to replace the current aging metering system. The project will be a multiphase process and has an estimated cost of \$1,600,000 between FY 2025-2029.

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2024**

**F. EMPLOYEE PENSION AND OTHER BENEFIT PLANS**

**F.1. Pension Plan Obligations:**

Certain employees of the City, except school employees, are members of the City's contributory, defined benefit pension plan, a single-employer plan. The plan was established by City ordinance and may be amended by such. The Water System makes up approximately 25% of the City's total plan. This rate was determined by the CMFO of the City based upon expense percentages.

**Plan Description**

The City of Lexington pension committee administers the Retirement Plan for Employees of the City of Lexington (Plan) – a single employer defined benefit pension plan that provides pensions for employees.

**Actuarial Cost Method**

*Individual entry age normal cost* – Under this method, the annual cost is equal to the normal cost, plus an amortization of the unfunded accrued liabilities over a fixed period of years selected within the minimum (10 years) and the maximum (5 to 30 years) periods permitted by law.

The normal cost is the sum of individual normal costs, determined as a level percentage of compensation which would have been necessary to fund the employee's projected retirement, death and withdrawal benefits, from entry age (the age at which the employee would have entered the plan had it been in effect on his employment date), to his retirement age. Thus, the dollar normal cost is expected to increase with the salary projection assumption.

The actuarial accrued liability is the accumulation, based on the actuarial assumptions, of all assumed prior normal costs. Thus, it represents the amount of reserves, which would be held by the plan, had it always been in effect for the present group of participants and had plan experience followed that predicted by the actuarial assumptions. The unfunded accrued liability is the excess, if any, of the accrued liability over the plan assets.

Actuarial gains and losses arising from differences between plan experience and that predicted by the actuarial assumptions, as measured by the difference between actual and expected unfunded accrued liabilities, are amortized over the average of the expected remaining service lives of all employees (active and inactive), as required by GASB Statement No. 68.

**Attribution Parameters**

Attribution parameters determine how growth in the benefit formula is allocated to years of service.

*Accrual rate proration, by component* – This method attributes the benefit separately for each component of the benefit formula, based on the benefit credited service. If there is no accrual definitions in the benefit formula, then the entire projected benefit is assigned to past service (and considered fully accrued as of the valuation date). This results in "natural" or "directing differencing" attribution.

**Accrued and Vested Benefits**

Vested benefits are based on the plan document's vesting schedule based on years of service.

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Participant Data**

Inactive Plan Participants as of January 1, 2023:

Retirees and beneficiaries currently receiving benefits	4
Terminated employees entitled to deferred benefits	7
Disabled employees entitled to deferred benefits	-
Total	11

Active Plan Participants as of January 1, 2023:

Vested	12
Partially-vested	0
Non-vested	0
Total	12

**Summary of Plan Provisions**

Effective Date: May 1, 1973

Fiscal Year Beginning: 01/01/23

Eligibility Requirements: Minimum age of 20 and 12 minimum months of service hired on or before March 1, 2012. Entry date is the first day of the month coinciding with or next following the date the requirements are met. Entry has been closed since 3/1/2012.

Normal Retirement Date: First day of the month coinciding with or next following attainment of age 60 and 10 years of service.

Normal Retirement Benefit Formula:

Effective July 1, 2000 monthly annuity is equal to the sum of (1) and (2) below:

- (1) 2.25% of the member's Average Monthly Earnings multiplied by years of Credited Service up to a maximum of 30 years.
- (2) 1.85% of member's Average Monthly Earnings multiplied by years of Credit Service in excess of 30 years.

For contributing members as of April 1, 1986, minimum monthly annuity is equal to 3.33% of member's Average Monthly Earnings multiplied by years of credited service subject to a maximum of 15 years. Members of the prior plan will receive a benefit no less than 40% of the average monthly earnings during the period of 5 consecutive years in which his earnings were highest or 40% of his salary at age 64, whichever is greater.

Average Monthly Compensation: The greater of (i) average of monthly compensation for the 5 years of highest compensation whether consecutive or not, and (ii) monthly compensation during the year immediately preceding the participant's 60<sup>th</sup> birthday.

Credited Service: Number of years and completed months of active participation in this plan and the prior plan.

Normal Form of Benefits: Single: Single Life Annuity with 120 months certain.  
 Married: Equivalent 50% Joint and Survivor Annuity

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Maximum Annual Benefit: \$ 265,000 as adjusted per IRC Sec. 415 for retirement age other than social security retirement age and annuity form.

Employee Contributions: Monthly contributions equal to 6% of member's monthly earnings.

Credited Interest: 5% per annum compounded annually and 6% for terminated participants.

Early Retirement Benefit: Minimum Age: 50; Minimum Service: 10 years; Benefit Amount: based on service and earnings at termination, reduced actuarially.

Late Retirement Benefit: The greater of 1) normal retirement benefit, increased 8% per annum for each year that retirement is deferred, and 2) accrued benefit at late retirement date.

Pre-Retirement Death Benefit: Member contributions credited with interest to the date of death. Additionally, a member shall receive present value of the actuarial equivalent of the member's vested accrued benefit. The beneficiary shall receive the death benefit provided from group term life insurance plan maintained by the city.

Disability Benefit: Normal retirement benefit at date of disability reduced by the ratio of years of service at disability to years of service projected to normal retirement date. The benefit will commence the first day of the sixth month following determination of disability under the Social Security Act.

Vested Termination Benefit: A member who terminates employment with less than 5 years of credited service may elect to receive, at any time prior to retirement, either: 1) a return of member contributions with interest to the date of payment, or 2) income payments at retirement provided by his own contributions with interest.

A member who terminates employment with 5 or more years of credited service will be entitled to a percentage of the benefit earned based on years of credited service and average monthly earnings at separation from service.

The percentage is determined as follows:

<u>Years of Credited Service</u>	<u>Percentage</u>
Less than 5	0%
5	25%
6	40%
7	55%
8	70%
9	85%
10 or more	100%

Cost of Living Adjustment: The plan sponsor has adopted an amendment to apply an annual cost of living increase adjustment (COLA) each July 1 beginning July 1, 2018. The COLA will be based on the Consumer Price Index for Urban Wage Earners, with a maximum annual increase of 3% and a minimum increase of 0%. The COLA will be prorated for a participant receiving fewer than twelve payments in the preceding year by the number of months of payment divided by 12.

Unused Sick Leave Employees age 55 or older as of 12/31/2021 may transfer the value of their unused sick-leave to the Plan of either (a) purchase age and service to be added to current age and service or (b) receive an equivalent value paid from the trust paid out over up to five years.

**CITY OF LEXINGTON, TENNESSEE**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**Contribution Required**

Actuarially determined contributions to the Plan are determined each year as part of the actuarial valuation process. These contributions are determined according to the following funding policy.

Actuarial Cost Method: Individual Entry Age Normal, Level of Percentage of Pay

Asset Valuation Method: Market Value of Assets adjusted to phase in asset gains and losses after January 1, 2002 over a 5-year period at a rate of 20% per year. Valuation assets are further limited to a 20% corridor around market value.

Amortization Method: The amortization policy shall be that the UAAL, as of January 1, 2015 and any changes thereafter as a result of the change in assumptions or methods or benefit or plan changes, shall be amortized over a fixed period of 30 years beginning January 1, 2015. The amortization period for future experience gains and losses shall be 10 years from the date of the actuarial valuation.

**Investments**

Investment information has been provided by John Hancock.

Investment Policy: The following was the City's adopted asset allocation policy as of June 30, 2023:

<u>Asset Class</u>	<u>Target Allocation</u>
US Equity - Large Cap	39%
US Equity - Small/Mid Cap	16%
Non-US Equity - Developed	17%
Non-US Equity - Emerging	3%
US Corporate Bonds - Core	16%
US Corporate Bonds - High Yield	4%
Non-US Debt - Developed	3%
US Treasuries (Cash Equivalents)	2%
Total	<u>100%</u>

Rate of Return: For the year ended June 30, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.59%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability**

The System's net pension liability at June 30, 2023 is \$1,176,206. The following assumptions were used in the calculation of the net pension liability.

**Actuarial Assumptions (for calculation of the Net Pension Liability)**

**Measurement Date**

June 30, 2023

**Valuation Date**

January 1, 2023

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**Mortality**

SOA PubG-2010(B), Scale MP-2018 Fully Generational

**Discount Rate**

7.25% per annum

**Inflation**

2.24% per annum. This assumption is an underlying component of a number of these economic assumptions: consumer price indices, forecasts of inflation, yields on government securities of various maturities, and yields on nominal and inflation-indexed debt.

**Salary Projection**

Ages 20-29 5.00%, Ages 30-39 3.50%, Ages 40+ 2.75%. The assumption selected is consistent with the plan sponsor's current compensation practice. This assumption reflects the following factors: available compensation data, including plan sponsor's current compensation practice and anticipated changes, current compensation distributions by age or service, historical compensation increases and practices of the plan sponsor and other plan sponsors in the same industry or geographic area, historical national wage increases and productivity growth; competitive factors (within industry or geographic area or globally); consider collective bargaining agreements; compensation volatility (bonuses and overtime vary); expected plan freeze or termination; multiple compensation increase assumptions, select and ultimate (vary by period or by age or service); separate assumptions for different employee groups; and separate assumptions for different compensation elements.

**Retirement Age**

Age 60 35%, Ages 61-64 5%, Age 65 40%, Ages 66-69 30%, Ages 70+ 100%. Service purchase employees, 100% at age 57.

**Cost of Living Increase**

2.05% per annum of the participant's original benefit.

**Disability Rates**

See disability rates below.

**Withdrawal Rates**

See withdrawal rates below.

<u>Age</u>	<u>Withdrawal</u>		<u>Disability</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	9.000%	9.000%	0.278%	0.164%
30	7.500%	7.500%	0.354%	0.257%
35	6.000%	6.000%	0.458%	0.401%
40	4.500%	4.500%	0.645%	0.629%
45	3.000%	3.000%	1.007%	0.985%
50	1.500%	1.500%	1.605%	1.483%
55	0.000%	0.000%	2.114%	1.742%
60	0.000%	0.000%	2.503%	1.956%

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The actuarial assumptions used were based on the results of an actuarial experience study prepared in 2018 for the period January 1, 2014 through December 31, 2018.

Liabilities were valued as of January 1, 2023 using data as of January 1, 2023 and provisions and assumptions as of June 30, 2023. This liability was then increased by service cost and interest cost (for the period January 1, 2023 – June 30, 2023) and reduced by actual benefit payments for the period plus interest.

**Long-Term Expected Rate of Return on Pension Plan Investments**

The long-term expected rate of return on pension plan investments was determined by the investment advisor, John Hancock. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>	<u>Weighting</u>
US Equity - Large Cap	39%	5.24%	2.04%
US Equity - Small/Mid Cap	16%	6.37%	1.02%
Non-US Equity - Developed	17%	6.07%	1.03%
Non-US Equity - Emerging	3%	8.02%	0.24%
US Corporate Bonds - Core	16%	1.17%	0.19%
US Corporate Bonds - High Yield	4%	2.91%	0.12%
Non-US Debt - Developed	3%	0.31%	0.01%
US Treasuries (Cash Equivalents)	2%	-0.44%	-0.01%
Total	100%		4.64%
Long-Term Inflation Assumption			2.45%
<b>Long-Term Expected Nominal Rate of Return</b>			<b>7.20%</b>

\*Long-term real rates of return were provided by 2022 Horizon Study. Returns are arithmetic means.

Long-term capital market assumptions (20+ years) are applicable to approximate future return expectations. The actuaries utilized a modified building blocks methodology because being able to identify historical return premiums of asset classes in the context of varying market environments provides a reasonable basis to estimate the performance of asset classes going forward.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumes that the System's contributions will be made according to their established funding policy to contribute the actuarially determined contribution. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

	<b>1% Decrease 6.25%</b>	<b>Current Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
Plan's net pension liability	\$ 1,678,596	\$ 1,176,206	\$ 749,351

**Change in City's Net Pension Liability**

Changes in the City's net pension liability for the year ended June 30, 2024 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
	Balances at 6/30/22	\$ 4,410,602	\$ 3,326,133
Changes for the year:			
Service cost	83,904	-	83,904
Interest	306,276	-	306,276
Changes of benefit terms	-	-	-
Differences between expected and actual experience	138,302	-	138,302
Change in assumptions	-	-	-
Contributions - employer	-	64,508	(64,508)
Contributions - employee	-	40,318	(40,318)
Net investment income	-	362,712	(362,712)
Benefit payments	(715,942)	(715,942)	-
Administrative expense	-	(30,793)	30,793
Net changes	(187,460)	(279,197)	91,737
Balances at 6/30/23	\$ 4,223,142	\$ 3,046,936	\$ 1,176,206

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2024, the System recognized pension expense of \$136,887. At June 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 157,851	\$ 68,295
Change in assumption	-	115,304
Net difference between projected and actual earnings on pension plan investments	150,921	-
Contributions subsequent to the measurement date of June 30, 2023	52,717	-
Total	\$ 361,489	\$ 183,599

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2024	(15,326)
2025	2,184
2026	162,240
2027	(23,925)
2028	-
Thereafter	-

**Payable to the Pension Plan**

At June 30, 2024, the City reported \$ 0 payable for outstanding amount of contributions to the pension plan required at the year ended June 30, 2024.

The Water System began offering a 403(b) defined contribution plan to their eligible employees hired after April 1, 2012 and is administered by the City of Lexington. Employees are required to make a mandatory contribution of 6% of their annual compensation and the Water System matches their contribution with an equal amount. The employer's contributions are not vested until after five annual periods in the plan. The employer has the right to amend the Plan at any time. In no event, however, will any amendments or permit any part of the Plan assets to be used for purposes other than the exclusive benefit of Participants or their beneficiaries. The Water System's current year contributions to the plan were \$82,541.

**F.2. POST EMPLOYMENT HEALTHCARE PLAN**

**Plan Description** – The City sponsors a single-employer post-retirement benefit plan. The plan provides medical and death benefits to eligible retirees and their spouses. Since the benefits are the ongoing medical and life benefits of the System, it is administered through the same oversight unit, which is the Board of Aldermen, as the rest of the operations of the City. The City's total OPEB liability was measured as of July 1, 2023 and was determined by an actuarial valuation as of that date.

**Plan Type:** Fully Insured

**Eligibility:** Hired on or after March 1, 2012: Age 60 with 10 years of service  
Employees hired prior to March 1, 2012 are not eligible.

CITY OF LEXINGTON, TENNESSEE

LEXINGTON WATER SYSTEM

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**Benefit/Cost Sharing:** The employer pays a percentage of the medical premium until age 65 Based on total years of service in accordance with the following:

<u>Years of Service at Retirement Date</u>	<u>Employer-Funded Portion of Individual Coverage for Post-Retirement Individual Coverage</u>
20	100%
19	95%
18	90%
17	85%
16	80%
15	75%
14	70%
13	65%
12	60%
11	55%
10	50%

**Spouse Benefit:** No

**Surviving Spouse Benefit:** No

**Annual Medical Premium:** Effective July 1, 2023 through June 30, 2024: Individual \$7,669.32

**Employees Covered By Benefit Terms**

At the measurement date of July 1, 2023, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries	
Currently Receiving Benefits	-
Inactive Employees Entitled to But	
Not Yet Receiving Benefits	-
Active Employees	<u>27</u>
Total	<u><u>27</u></u>

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**LEXINGTON WATER SYSTEM**  
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**Changes in Total OPEB Liability**

	<b>Water</b>
<b>Balance at 6/30/23</b>	\$ 336,322
<b>Changes for the year:</b>	
Service Cost	87,801
Interest	14,397
Differences between expected and actual experience	(36,864)
Changes in assumptions and other inputs	(9,358)
Benefit payments	-
<b>Net changes</b>	<b>55,976</b>
<b>Balance at 6/30/24</b>	<b>\$ 392,298</b>

**Assumption changes** – The discount rate was 3.65% as of June 30, 2023 and 3.93 % as of June 30, 2024.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

1% Decrease (2.93%)	Discount Rate (3.93%)	1 % Increase (4.93%)
\$ 449,836	\$ 392,298	\$ 341,610

<b>Healthcare</b>		
1% Decrease (5.50% decreasing to 4%)	Healthcare Cost Trend Rates (6.50% decreasing to 5%)	1 % Increase (7.50% decreasing to 6%)
\$ 316,885	\$ 392,298	\$ 488,265

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended June 30, 2024, the Utility recognized OPEB expense of \$94,743. At June 30, 2024, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
Differences between expected and actual experience	\$ 6,111	\$ 87,746
Changes of assumptions/inputs	25,960	61,804
Contributions subsequent to the measurement date	-	(not applicable)
<b>Total</b>	<b>\$ 32,071</b>	<b>\$ 149,550</b>

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The amounts shown above for "Contributions subsequent to the measurement date" will be recognized as a reduction to total OPEB liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended June 30:**

2025	\$	(7,455)
2026	\$	(7,455)
2027	\$	(7,455)
2028	\$	(7,455)
2029	\$	(7,455)
Thereafter	\$	(80,204)

**Actuarial Methods and Assumptions** – An Actuarial Cost Method develops an orderly allocation of the actuarial present value of benefit payments over the working lifetime of the participants in the plan. The actuarial present value of benefits allocated to a particular fiscal year is called the Normal Cost. The actuarial present value of benefits allocated to all periods prior to a valuation date is called the Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over future years in accordance with the employer's established accounting policy.

The entry age actuarial cost method is used in this valuation. Under this method, the Actuarial Present Value of Benefits of each individual included in the Actuarial Valuation is allocated on a level basis over future earnings of the individual between entry age and assumed exit age. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

The values in this valuation represent a closed group and do not reflect new entrants after the census collection date.

**Discount Rate:** A discount rate of 3.93% was used in estimating the GASB 75 financial information for fiscal year ending June 30, 2024.

**Mortality:** The sex distinct mortality rates are from the RP-2014 Combined Male and Female Fully Generational Mortality Table with projection scale MP-2021.

**Retirement Rates:** Employees were assumed to retire at age 60, or at first subsequent year in which they would be eligible for benefits.

**Disability Rates:** None assumed

**Termination Rates:** Based on age and service:

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<u>Age</u>	<u>Trend Rates</u>
25	4.50%
30	3.75%
35	3.00%
40	2.25%
45	1.50%
50	0.75%
55+	0.00%

**Health Care Trend Rates:** It was assumed that health care costs would increase in accordance with the trend rates in the following table:

<u>Year</u>	<u>Trend Rates</u>
2021	7.0%
2022	6.5%
2023	6.0%
2024	5.5%
2025+	5.0%

**Participation Rates:** It was assumed that 100% of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement.

**Actuarial Value of Assets:** N/A

**Per Capita Claim Costs:** Per Capita Claim Costs were developed by applying morbidity aging factors to the average factors to the average premium rates reflecting the demographic characteristics of the insured group. Below are the annual per capita claim costs used:

<u>Age</u>	<u>Male</u>	<u>Female</u>
50	\$ 10,160	\$ 11,720
55	12,336	12,800
60	14,878	14,261
65	8,470	7,930
70	9,353	8,763
75	10,327	9,676
80	10,856	10,163
85	11,411	10,685
90	11,990	11,229
95	12,602	11,807
100	13,245	12,408

**Administrative expenses:** Included in premiums used.

**Participant Salary Increase:** 3.50% annually

**Payroll Growth Rate:** 2.50% annually

**CITY OF LEXINGTON, TENNESSEE  
LEXINGTON WATER SYSTEM  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
JUNE 30, 2024**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB liability</b>							
Service cost	\$ 87,801	\$ 75,182	\$ 94,125	\$ 48,874	\$ 40,305	\$ 41,640	\$ 42,830
Interest	14,397	11,696	6,693	4,311	4,304	5,197	3,350
Changes in benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(36,864)	-	7,311	-	(72,081)	-	-
Changes in assumptions	(9,358)	(5,773)	(53,883)	1,604	25,999	8,180	(4,271)
Benefit payments	-	-	-	-	-	-	-
<b>Net change in total OPEB liability</b>	<b>55,976</b>	<b>81,105</b>	<b>54,246</b>	<b>54,789</b>	<b>(1,473)</b>	<b>55,017</b>	<b>41,909</b>
<b>Total OPEB liability - beginning of year</b>	<b>336,322</b>	<b>255,217</b>	<b>200,971</b>	<b>146,182</b>	<b>147,655</b>	<b>92,638</b>	<b>50,729</b>
<b>Total OPEB liability - end of year</b>	<b>\$ 392,298</b>	<b>\$ 336,322</b>	<b>\$ 255,217</b>	<b>\$ 200,971</b>	<b>\$ 146,182</b>	<b>\$ 147,655</b>	<b>\$ 92,638</b>
<b>Covered-employee payroll</b>	<b>\$ 1,571,341</b>	<b>\$ 684,389</b>	<b>\$ 632,496</b>	<b>\$ 348,685</b>	<b>\$ 329,387</b>	<b>\$ 353,254</b>	<b>\$ 321,313</b>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<b>24.97%</b>	<b>49.14%</b>	<b>40.35%</b>	<b>57.64%</b>	<b>44.38%</b>	<b>41.80%</b>	<b>28.83%</b>

Note 1: Plan changes - None

Note 2: Assumption changes - The discount rate was 3.65% as of June 30, 2023 and 3.93% as of June 30, 2024.

Note 3: This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

Note 4: There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE  
LEXINGTON WATER SYSTEM  
SCHEDULE OF CHANGE IN NET PENSION LIABILITY AND RELATED RATIOS  
JUNE 30, 2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total pension liability</b>										
Service Cost	\$ 114,489	\$ 119,069	\$ 122,401	\$ 109,973	\$ 94,965	\$ 106,151	\$ 102,217	\$ 96,119	\$ 94,376	\$ 83,904
Interest	223,161	245,602	273,399	259,753	231,514	284,810	261,595	285,574	303,532	306,276
Changes in benefit terms	-	-	-	-	177,200	-	-	-	76,145	-
Differences between actual and expected experience	-	66,854	(27,809)	(103,651)	(21,378)	(4,558)	133,425	-	(110,234)	138,302
Change of assumptions	-	-	(141,691)	-	-	(536,121)	-	12,822	-	-
Benefit payments, including refunds of employee contributions	(55,390)	(30,178)	(99,535)	(394,644)	(128,346)	(193,549)	(157,843)	(185,113)	(82,683)	(715,942)
<b>Net change in total pension liability</b>	<b>282,259</b>	<b>401,347</b>	<b>126,765</b>	<b>(128,569)</b>	<b>353,955</b>	<b>(343,267)</b>	<b>339,394</b>	<b>209,402</b>	<b>281,136</b>	<b>(187,460)</b>
<b>Total pension liability - beginning</b>	<b>2,888,180</b>	<b>3,170,439</b>	<b>3,571,786</b>	<b>3,698,551</b>	<b>3,569,982</b>	<b>3,923,937</b>	<b>3,580,670</b>	<b>3,920,064</b>	<b>4,129,466</b>	<b>4,410,602</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 3,170,439</b>	<b>\$ 3,571,786</b>	<b>\$ 3,698,551</b>	<b>\$ 3,569,982</b>	<b>\$ 3,923,937</b>	<b>\$ 3,580,670</b>	<b>\$ 3,920,064</b>	<b>\$ 4,129,466</b>	<b>\$ 4,410,602</b>	<b>\$ 4,223,142</b>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 143,492	\$ 143,593	\$ 141,117	\$ 106,942	\$ 84,560	\$ 82,586	\$ 78,247	\$ 73,703	\$ 69,622	\$ 64,508
Contributions - employee	75,421	74,242	71,038	64,634	52,850	51,616	48,904	46,064	43,514	40,318
Net investment income	357,972	54,354	(156)	409,196	235,860	126,230	30,804	951,218	(578,440)	362,712
Benefit payments, including refunds of employee contributions	(55,390)	(30,178)	(99,535)	(394,644)	(476,674)	(193,549)	(157,843)	(185,113)	(82,683)	(715,942)
Administrative expense	(352)	(9,365)	(24,279)	(18,893)	(21,495)	(9,395)	(17,480)	(31,112)	(17,488)	(30,793)
<b>Net change in plan fiduciary net position</b>	<b>521,143</b>	<b>232,646</b>	<b>88,185</b>	<b>167,234</b>	<b>(124,899)</b>	<b>57,488</b>	<b>(17,368)</b>	<b>654,760</b>	<b>(565,475)</b>	<b>(279,197)</b>
<b>Plan fiduciary net position - beginning</b>	<b>2,112,419</b>	<b>2,633,562</b>	<b>2,866,208</b>	<b>2,954,393</b>	<b>3,121,627</b>	<b>2,996,728</b>	<b>3,054,216</b>	<b>3,036,848</b>	<b>3,891,608</b>	<b>3,326,133</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 2,633,562</b>	<b>\$ 2,866,208</b>	<b>\$ 2,954,393</b>	<b>\$ 3,121,627</b>	<b>\$ 2,996,728</b>	<b>\$ 3,054,216</b>	<b>\$ 3,036,848</b>	<b>\$ 3,891,608</b>	<b>\$ 3,326,133</b>	<b>\$ 3,046,936</b>
<b>Net pension liability (asset) - ending (a) - (b)</b>	<b>\$ 536,877</b>	<b>\$ 705,578</b>	<b>\$ 744,158</b>	<b>\$ 448,355</b>	<b>\$ 927,209</b>	<b>\$ 526,454</b>	<b>\$ 883,216</b>	<b>\$ 237,858</b>	<b>\$ 1,084,469</b>	<b>\$ 1,176,206</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>83.07%</b>	<b>80.25%</b>	<b>79.88%</b>	<b>87.44%</b>	<b>76.37%</b>	<b>85.30%</b>	<b>77.47%</b>	<b>94.24%</b>	<b>75.41%</b>	<b>72.15%</b>
<b>Covered payroll</b>	<b>\$ 1,155,705</b>	<b>\$ 1,166,194</b>	<b>\$ 1,078,263</b>	<b>\$ 933,111</b>	<b>\$ 855,863</b>	<b>\$ 860,478</b>	<b>\$ 822,031</b>	<b>\$ 818,190</b>	<b>\$ 730,694</b>	<b>\$ 602,983</b>
<b>Net pension liability (asset) as a percentage of covered payroll</b>	<b>46.45%</b>	<b>60.50%</b>	<b>69.01%</b>	<b>48.05%</b>	<b>108.34%</b>	<b>61.18%</b>	<b>107.44%</b>	<b>29.07%</b>	<b>148.42%</b>	<b>195.06%</b>

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE  
 LEXINGTON WATER SYSTEM  
 SCHEDULES OF PLAN CONTRIBUTIONS  
 JUNE 30, 2024

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Actuarially determined contribution	\$ 120,495	\$ 137,002	\$ 112,947	\$ 82,369	\$ 57,479	\$ 64,607	\$ 91,748	\$ 96,600	\$ 68,159	\$ 51,202
Contributions in relation to the actuarially determined contribution	<u>138,393</u>	<u>143,593</u>	<u>141,117</u>	<u>106,942</u>	<u>84,560</u>	<u>82,586</u>	<u>78,247</u>	<u>73,703</u>	<u>69,622</u>	<u>54,914</u>
Contribution deficiency (excess)	<u>\$ (17,898)</u>	<u>\$ (6,591)</u>	<u>\$ (28,169)</u>	<u>\$ (24,573)</u>	<u>\$ (27,080)</u>	<u>\$ (17,979)</u>	<u>\$ 13,502</u>	<u>\$ 22,897</u>	<u>\$ (1,464)</u>	<u>\$ (3,712)</u>
Covered-employee payroll	\$ 1,155,705	\$ 1,166,194	\$ 1,078,263	\$ 933,111	\$ 855,863	\$ 860,478	\$ 822,031	\$ 818,190	\$ 730,694	\$ 602,983
Contributions as a percentage to covered payroll	11.97%	12.31%	13.09%	11.46%	9.88%	9.60%	9.52%	9.01%	9.53%	9.11%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

The accompanying notes are an integral part of these financial statements.

CITY OF LEXINGTON, TENNESSEE  
 LEXINGTON WATER SYSTEM  
 SCHEDULE OF INVESTMENT RETURNS  
 FISCAL YEARS ENDING JUNE 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Annual money-weighted rate of return, net of investment expense	16.32%	2.02%	-0.01%	14.61%	8.57%	4.41%	1.02%	31.58%	-14.82%	11.59%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

The accompanying notes are an integral part of these financial statements.

**CITY OF LEXINGTON, TENNESSEE  
 LEXINGTON WATER SYSTEM  
 NOTES TO REQUIRED SUPPLEMENTAL  
 INFORMATION  
 JUNE 30, 2024**

**Notes to Schedule**

*Valuation date:* January 1. Since the plan year is equal to a calendar year, contributions are determined on a calendar year basis. The amount displayed represents the contribution for the plan year beginning within the fiscal year.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Individual Entry Age Normal, level percent of pay
Amortization method	Level dollar, closed, 30 years remaining as of January 1, 2015
Remaining amortization period	22 years as of 1/1/2023
Asset valuation	Market value adjusted to phase in gains/losses over five-years. Assets are further limited to a 20% corridor around market value
Salary increases	Ages 20-29 5.00%; Ages 30-39 3.50%, Ages 40+ 2.75%
Cost of living increases:	2.05%
Investment Rate of Return	7.25%
Retirement age	Age 60 35%, Ages 61-64 5%, Age 65 40%, Ages 66-69 30%, Ages 70+ 100%
Mortality	SOA PubG-2010 (B), Scale MP-2018 Fully Generational
Disabled Mortality	SOA PubG-2010 Disabled, Scale MP-2018 Fully Generational

\*This is a summary of the methods and assumptions for the 1/1/23 Actuarial Valuation

**The accompanying notes are an integral part of these financial statements.**

**CITY OF LEXINGTON, TENNESSEE**  
**LEXINGTON WATER SYSTEM**  
**SCHEDULE OF LONG-TERM DEBT REQUIREMENTS**  
**JUNE 30, 2024**

Year Ending June 30,	2012 General Obligation Bonds		2017 General Obligation Bonds		Local Government Loan Program Bond, Series 2015		2019 Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2025	\$ 328,517	\$ 25,171	\$ 82,875	\$ 35,398	\$ 104,000	\$ 36,570	\$ 290,000
2026	342,398	18,601	85,000	33,824	105,000	33,450	300,000	91,350
2027	356,279	11,753	87,125	32,058	106,000	30,300	310,000	82,350
2028	231,351	4,627	89,250	30,118	108,000	27,120	320,000	73,050
2029	-	-	91,375	28,040	109,000	23,880	325,000	63,450
2030	-	-	93,500	25,821	111,000	20,610	335,000	53,700
2031	-	-	95,625	23,456	112,000	17,280	345,000	43,650
2032	-	-	97,750	20,966	114,000	13,920	360,000	33,300
2033	-	-	102,000	18,293	115,000	10,500	370,000	22,500
2034	-	-	104,125	15,433	117,000	7,050	380,000	11,400
2035	-	-	106,250	12,408	118,000	3,540	-	-
2036	-	-	110,500	9,155	-	-	-	-
2037	-	-	114,750	5,634	-	-	-	-
2038	-	-	114,875	1,899	-	-	-	-
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
	<u>\$ 1,258,545</u>	<u>\$ 60,152</u>	<u>\$ 1,375,000</u>	<u>\$ 292,503</u>	<u>\$ 1,219,000</u>	<u>\$ 224,220</u>	<u>\$ 3,335,000</u>	<u>\$ 574,800</u>

Year Ending June 30,	2020 General Obligation Bonds		Local Government Loan Program Bond - Water, Series 2024		Local Government Loan Program Bond - Sewer, Series 2024		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2025	\$ 340,000	\$ 149,333	\$ 53,000	\$ 124,272	\$ 40,000	\$ 93,790	\$ 1,238,392
2026	350,000	142,533	55,000	124,846	11,949	94,714	1,249,347	539,318
2027	360,000	135,533	59,000	127,367	-	-	1,278,404	419,361
2028	370,000	124,733	62,000	128,780	-	-	1,180,601	388,428
2029	385,000	113,633	65,000	130,113	-	-	975,375	359,116
2030	390,000	102,083	68,000	131,365	-	-	997,500	333,579
2031	400,000	94,283	72,000	133,536	-	-	1,024,625	312,205
2032	405,000	86,282	47,257	135,599	-	-	1,024,007	290,067
2033	415,000	78,182	-	-	-	-	1,002,000	129,475
2034	425,000	69,882	-	-	-	-	1,026,125	103,765
2035	435,000	61,382	-	-	-	-	659,250	77,330
2036	450,000	52,247	-	-	-	-	560,500	61,402
2037	450,000	42,572	-	-	-	-	564,750	48,206
2038	460,000	32,672	-	-	-	-	574,875	34,571
2039	475,000	22,323	-	-	-	-	475,000	22,323
2040	485,000	11,397	-	-	-	-	485,000	11,397
	<u>\$ 6,595,000</u>	<u>\$ 1,319,070</u>	<u>\$ 481,257</u>	<u>\$ 1,035,878</u>	<u>\$ 51,949</u>	<u>\$ 188,504</u>	<u>\$ 14,315,751</u>	<u>\$ 3,695,127</u>

CITY OF LEXINGTON, TENNESSEE

LEXINGTON WATER SYSTEM

SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

JUNE 30, 2024

Description of Indebtedness	Original Amount Of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2023	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2024
<b>Business-Type Activities</b>									
<b>BONDS PAYABLE</b>									
<b>Payable through Lexington Water System Fund</b>									
G. O. Public Improvement Bonds, Series 2012 Water Portion	\$ 4,145,797	1.00 to 2.00%	10/18/2012	4/1/2028	\$ 1,573,182	\$ -	\$ 314,637	\$ -	\$ 1,258,545
General Obligation Public Works Bonds, Series 2017 Water Portion	\$ 1,700,000	1.30 to 3.25%	7/20/2017	7/15/2037	1,460,000	-	85,000	-	1,375,000
Public Works Refund Bond, Series 2019 Water Portion	\$ 4,675,000	2.00 to 3.00%	2/7/2019	3/1/2034	3,615,000	-	280,000	-	3,335,000
Public Works Improvement Bonds, Series 2020 Water Portion	\$ 7,940,000	2.00 to 3.00%	4/30/2020	4/30/2030	6,940,000	-	345,000	-	6,595,000
<b>TOTAL BONDS PAYABLE - Payable through Lexington Water System Fund</b>					<u>13,588,182</u>	<u>-</u>	<u>1,024,637</u>	<u>-</u>	<u>12,563,545</u>
<b>OTHER LOANS PAYABLE</b>									
<b>Payable through Lexington Water System Fund</b>									
Local Government Loan Program Bond, Series 2015	\$ 2,000,000	Variable Rate	8/27/2015	5/25/2035	1,321,000	-	102,000	-	1,219,000
Local Government Loan Program Bond, Series 2024	\$ 2,650,000	5.379%	5/8/2024	5/1/2049	-	481,257	-	-	481,257
Local Government Loan Program Bond, Series 2024	\$ 2,000,000	5.379%	5/8/2024	5/1/2049	-	51,949	-	-	51,949
<b>TOTAL OTHER LOANS PAYABLE - Payable through Lexington Water System Fund</b>					<u>1,321,000</u>	<u>533,206</u>	<u>102,000</u>	<u>-</u>	<u>1,752,206</u>
<b>TOTAL LONG-TERM DEBT</b>					<u>\$ 14,909,182</u>	<u>\$ 533,206</u>	<u>\$ 1,126,637</u>	<u>\$ -</u>	<u>\$ 14,315,751</u>

CITY OF LEXINGTON, TENNESSEE

LEXINGTON WATER SYSTEM

TABLE OF UTILITY RATES IN FORCE

JUNE 30, 2024

WATER RATES -----

INSIDE CITY LIMITS - Customer Charge 0-2,000 gallons

	<u>Meter Charge</u>		<u>Maint Fee</u>		<u>Tech Fee</u>		<u>2,000 gallons @ cons. Rate</u>	=	<u>Customer Charge</u>
3/4"	\$11.91	+	\$1.60	+	\$ 2.00	+	\$13.00	=	\$28.51
1"	\$15.13	+	\$1.60	+	\$ 2.54	+	\$13.00	=	\$32.27
1.5"	\$19.53	+	\$1.60	+	\$ 3.28	+	\$13.00	=	\$37.41
2"	\$31.44	+	\$1.60	+	\$ 5.28	+	\$13.00	=	\$51.32
3"	\$119.10	+	\$1.60	+	\$ 20.00	+	\$13.00	=	\$153.70
4"	\$151.61	+	\$1.60	+	\$ 25.46	+	\$13.00	=	\$191.67
6"	\$227.36	+	\$1.60	+	\$ 38.18	+	\$13.00	=	\$280.14

Consumption Rate Over 2,000 gallons = \$6.50 Per 1,000 gallons

OUTSIDE CITY LIMITS - Customer Charge 0-2,000 gallons

	<u>Meter Charge</u>		<u>Maint Fee</u>		<u>Tech Fee</u>		<u>2,000 gallons @ cons. Rate</u>	=	
3/4"	\$20.57	+	\$1.60	+	\$ 2.00		\$13.00	=	\$37.17
1"	\$26.12	+	\$1.60	+	\$ 2.54		\$13.00	=	\$43.26
1.5"	\$33.73	+	\$1.60	+	\$ 3.28		\$13.00	=	\$51.61
2"	\$54.30	+	\$1.60	+	\$ 5.28		\$13.00	=	\$74.18
3"	\$205.70	+	\$1.60	+	\$ 20.00		\$13.00	=	\$240.30
4"	\$261.86	+	\$1.60	+	\$ 25.46		\$13.00	=	\$301.92
6"	\$392.68	+	\$1.60	+	\$ 38.18		\$13.00	=	\$445.46

Consumption Rate Over 2,000 gallons = \$6.50 Per 1,000 gallons

BULK WATER - Consumption Rate = \$6.50 Per 1,000 gallons

NUMBER OF CUSTOMERS AT YEAR END: 10,434

SEWER RATES -----

LEXINGTON

Customer Charge 0-2,000 gallons

5/8"	\$27.58
1"	\$35.03
1.5"	\$45.23
2"	\$72.81
3"	\$275.80
4"	\$351.09
6"	\$526.50

PARKERS CROSSROADS

Customer Charge 0-2,000 gallons

5/8"	\$57.92
1"	\$73.56
1.5"	\$94.99
2"	\$152.91
3"	\$579.20
4"	\$737.32
6"	\$1,105.69

Usage Rate Over 2,000 gallons = \$7.00 Per 1,000 gallons

SEWER CUSTOMERS WITH WELLS

Customer Charge (based on 5,000 gallons) = \$48.58 Flat Rate

\$78.92 Flat Rate

NUMBER OF CUSTOMERS AT YEAR END: 3,785

**CITY OF LEXINGTON, TENNESSEE  
LEXINGTON WATER SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2024**

<b>Federal Grantor/Pass- Through Grantor/ Program Title</b>	<b>Assistance Listing Number</b>	<b>Contract Number</b>	<b>Expenditures</b>
<b><u>FEDERAL AWARDS</u></b>			
<b>Department of Agriculture (USDA)</b>			
Emergency Watershed Protection Program/Passed through from City of Lexington	10.923	N/A	<u>\$ 5,447</u>
<b>Department of Treasury</b>			
Coronavirus State and Local Fiscal Recovery Funds - ARPA WIIP Noncompetitive	21.027	N/A	<u>230,732</u>
<b>Election Assistance Commission</b>			
Delta Regional Authority - Timberlake Industrial Park Water Storage Tank	90.200	TN-54528	<u>293,000</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$ 529,179</u></u>

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards and state financial assistance summarized the expenditures of the Water Fund of the Town of Lexington, Tennessee, under programs of the federal and state governments for the year ended June 30, 2024. The schedule is presented using the modified accrual basis of accounting.

**Note 2: Indirect Cost Rate**

The City of Lexington has elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

The accompanying notes are an integral part of these financial statements.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Mayor and City Aldermen  
City of Lexington, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Lexington Water System (the System), a department of the City of Lexington, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 23, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control described as 2024-001 that we consider to be material weaknesses.

**2024-001 GENERAL LEDGER MATERIALLY MISSTATED BEFORE ADJUSTMENTS**

**Condition:** The financial statements were materially misstated before audit adjustments due to a failure to book a grant receivable, accounts payable posted improperly, grant payable being posted improperly, and insurance reserves being posting improperly.

**Criteria:** Generally accepted accounting principles require that accounting transaction be posted properly.

**Cause:** Oversight of City personnel.

**Effect:** Material adjustments were required because the System's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

**Recommendation:** We recommend that the financial statements be materially stated.

**Management's Response:** End of year procedure checklist has been modified to ensure these entries are recorded properly.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

#### **2024-002 RETAINAGE NOT DEPOSITED INTO ESCROW ACCOUNTS**

**Condition:** The System failed to deposit amounts withheld from contractor payments for retainage into an escrow account. Section 66-34-104 *Tennessee Code Annotated* requires funds withheld from contractor payments to be deposited into an interest-bearing escrow account with a third party when the prime contract is \$500,000 or greater, with the amount of retainage held not to exceed five percent of the amount of the contract.

**Criteria:** TCA Code 66-34-104

**Cause:** Oversight of System personnel.

**Effect:** Noncompliance.

**Recommendation:** We recommend that System employees deposit retainage funds into a third-party escrow account with contracts exceed \$500,000.

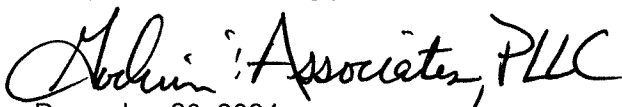
**Management's Response:** We agree and are in the process of transferring retainage funds to third-party escrow accounts.

### **The System's Response to Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the System's response to the findings identified in our audit and described above. The System's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
December 23, 2024

CITY OF LEXINGTON, TENNESSEE

LEXINGTON WATER SYSTEM

SCHEDULE OF DISPOSITION OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

*Financial Statement Findings*

Finding Number	Finding Title	Status
2023 - 001	General Ledger Materially Misstated Before Adjustments	Repeated/ 2024 - 001

**MANAGEMENT'S CORRECTIVE ACTION PLAN**

**2024 - 001 GENERAL LEDGER MATERIALLY MISSTATED BEFORE ADJUSTMENTS**

Responsible party

Mr. Griggs—City Mayor and Mr. Cody Wood—City Recorder/CFO

Corrective action planned

The City Recorder and Utilities Accounting Manager will post all entries to properly reflect the System's financial position including grants and year-end entries in the future before the fiscal year end or close of the books.

Anticipated completion date

December 30, 2024

**2024 - 002 RETAINAGE NOT DEPOSITED INTO ESCROW ACCOUNTS**

Responsible party

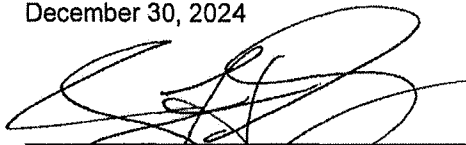
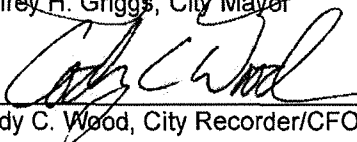
Mr. Griggs—City Mayor and Mr. Cody Wood—City Recorder/CFO

Corrective action planned

The City Recorder, Utilities Accounting Manager, and Utilities General Manager will ensure that retainage withheld from contractor's payments when the contract exceeds \$500,000 will be placed in third-party escrow accounts as required by TCA § 66-34-104.

Anticipated completion date

December 30, 2024

  
\_\_\_\_\_  
Jeffrey H. Griggs, City Mayor  
\_\_\_\_\_  
Cody C. Wood, City Recorder/CFO